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9 CHAIRPERSON JAMES:

10 Mr. Gleason.

11 MR. GLEASON: Thank you, Chairman James.

12 Speaking of games or venues of preference, I couldn't
13 help with argue with Dr. McGowan's remarks comment that
14 the lottery isn't necessarily the venue or preference
15 in Kentucky. We have a rather vibrant thoroughbred
16 industry which we're quite proud of and probably the
17 entertainment of preference is UK basketball, so we'll
18 see how they fair.

19 Chairman James and members of the
20 Commission, ladies and gentlemen, it is a pleasure to
21 be able to -- is this not on.

22 CHAIRPERSON JAMES: No, just get a little
23 closer to it.

24 MR. GLEASON: Okay.

1 CHAIRPERSON JAMES: When your lips touch,
2 you're close enough.

3 MR. GLEASON: When my lips touch I'm
4 closer. It is, indeed, a pleasure to address you
5 today. I'll try not to be redundant. Some of the
6 things Rebecca has just said, I've had the experience
7 as the chairman indicated of having run two different
8 lotteries, both of whom were differently structured.
9 In West Virginia, the lottery was structured as a
10 division or department of state government. And
11 Kentucky's lottery, which was created in 1988, was the
12 first U.S. lottery to take the corporate, the public
13 corporation form. Our lottery was initiated in
14 November of 1988 with a voter referendum which passed
15 by a vote of 60 percent of the citizens.

16 I would like to read just briefly from our
17 enabling legislation, which I think is telling as it
18 relates to the purpose of the corporation and within
19 the statutory provision that I've included in my
20 prepared remarks, there is a section that said, "The
21 corporation shall be managed in such a manner that
22 enables the people of the Commonwealth to benefit from
23 its profits and enjoy the best possible lottery ames."

1 "The General Assembly hereby recognizes
2 that the operations of the lottery are a unique
3 activities for state government, that the corporate
4 structure will best enable the lottery to be managed in
5 an entrepreneurial business-like manner." Further, it
6 says, "It is the intent of the General Assembly that
7 the Kentucky Lottery Corporation shall be accountable
8 to the governor, to the general assembly and the people
9 of the Commonwealth."

10 Those words are very real and they echo
11 exactly what Rebecca has told you with regard to how
12 lotteries are operated in virtually every state. The
13 Kentucky lottery began selling tickets in April of
14 1989, recognizing the unique position of thoroughbred
15 racing in Kentucky and particularly in the spring of
16 each year there is a rather well-attended thoroughbred
17 race called the Kentucky Derby.

18 The lottery opened up with two games and was
19 the first lottery to offer a \$2 game at its inception
20 called Derby Dreamstakes, which partnered with the
21 Kentucky Derby and was conducted for the mutual benefit
22 not only of the lottery but the thoroughbred industry.

23 In the fall of 1989, we began our on-line
24 games. Since 1989, when the games began, the lottery

1 has sold \$3.9 billion worth of tickets. We have paid
2 some \$240 million in commissions and incentive payments
3 to retailers, have operated on some \$325 million for
4 expenses and turned over \$1 billion, a little over \$1
5 billion in profits to the state of Kentucky.

6 I, like Rebecca, as president of the
7 lottery corporation, am appointed by the government and
8 confirmed by the board of directors of the corporation.
9 The corporation's board of directors likewise comes
10 from the citizens of Kentucky comprised of seven
11 individuals throughout the state of Kentucky with
12 diverse backgrounds and who must have a political
13 balance among them by statute. The state treasurer, by
14 virtue of his constitutional office, is an eighth
15 member of our board of directors and has, by statutory
16 provisions, has a voting right on the board.

17 We too are subject to legislative oversight
18 in a very real sense principally administered by three
19 committees of the General Assembly, a state and local
20 government committee, an appropriations and revenue
21 committee and a capital projects and bond oversight
22 committee. They have, in fact, exercised their
23 authority on several occasions, both in a real sense
24 and those authorities who are either delineated by

1 statutory provisions or at the discretion of the
2 general assembly.

3 Our corporation, like the Georgia Lottery
4 Corporation, is audited annually by an independent CPA
5 firm. That audit is directed and overseen by the
6 auditor of public accounts who is a constitutional
7 officer of the Commonwealth.

8 An example of how that authority is
9 exercised from time to time, in 1993, there were some
10 differences among the members of the General Assembly
11 and the then governor of the State of Kentucky as to
12 how the lottery was being operated and whether it was
13 truly fulfilling its mission. At the behest of that
14 group, that entire turnover of the management and board
15 of directors occurred and a new direction was set for
16 the corporation by it's current management and board of
17 directors.

18 The results of that have been quite
19 significant as it relates to the State of Kentucky and
20 an indicator of that is that our lottery has now on
21 three occasions and soon to be four hopefully, have
22 been recognized receiving the government finance
23 officers' certificate of excellence in financial
24 reporting. We are only the second U.S. lottery to have

1 received that distinction and only the second agency of
2 Kentucky state government to have received that
3 distinction.

4 As I said, we've turned over a billion
5 dollars to the state. The majority of our funds have
6 been placed in the general fund, which our legislative
7 research commission, and I know this is a much debated
8 issue as to how much these funds might actually go to
9 education, but some 40 percent of the general fund in
10 the state of Kentucky is devoted to the support of
11 education in Kentucky.

12 During a short two year period, during
13 fiscal years 1993 and '94, \$214 million of revenues
14 were devoted to a program under the acronym of SEEK,
15 which stands for Support of Excellence in Education in
16 Kentucky, and which funds secondary, elementary and
17 secondary education within the state.

18 Early on in our existence, the legislature
19 did choose to award out of net revenues a \$32 million
20 one time bonus to Vietnam Veterans.

21 There are two bills pending before the
22 General Assembly and it gets to a question that
23 Chairman James asked the day before in the discussion
24 and that was, can lotteries ever change the direction

1 of where their funding is going? There are two bills
2 before our General Assembly, both of which have a high
3 prospect of passing. One would take a small portion of
4 our funds. Each have passed one or the other of the
5 Houses of the General Assembly at this time. One would
6 take a small portion of our funds and devote them to an
7 affordable housing trust.

8 The other would take the great majority of
9 our funds, over a seven-year period, gradually
10 increasing the level of funding until it would be
11 virtually all of our funding for a program, a
12 scholarship program patterned somewhat after the HOPE
13 scholarship program in Georgia. Although a major
14 difference of the proposed legislation would be half of
15 it would be a program similar to Georgia's and the
16 other half would go to a need-based program.

17 It's important to note that during the nine
18 years that the lottery has been in existence, the
19 funding for education in the State of Kentucky has
20 increased from \$2.1 billion to \$3.5 billion, an
21 increase of approximately 64 percent in the intervening
22 years. That's during a time when the population of
23 Kentucky has been relatively stagnant and economic

1 conditions have been such that inflation is relatively
2 modest.

3 Obviously, as has been commented by others,
4 if the lottery didn't exist in Kentucky, there would
5 have to have been a billion dollars worth of taxes
6 imposed on the citizens of Kentucky during that nine
7 year period if programs were to be continued at their
8 present level, which amounts to \$110 million worth of
9 taxation annually on a population of 3.9 million
10 people.

11 The benefits that are realized in Kentucky
12 are much the same as in any jurisdiction. One of the
13 comments that the panel has been interested in is, you
14 know, what are the benefits to retailers and in
15 particular what quality of jobs might exist in the
16 retail environment?

17 Convenience stores throughout the country
18 are of two types. Probably the majority in our state
19 and virtually every other state, are stores that are
20 parts of multi-location chains, chains like the Dairy
21 Mart which has some 160 locations. Super America, a
22 former subsidiary of Ashland Oil and now a joint
23 venture with Marathon Oil, has some 120 locations and

1 the Kroger Food chain has about 100 locations in
2 Kentucky.

3 Those were the three most significant
4 retail operations within the state of Kentucky and they
5 do provide a good quality of jobs for the people who
6 work in those stores and a lot of the people who work
7 in those stores work on a part-time basis while they're
8 furthering their education.

9 In Louisville, Kentucky just recently, as
10 an aside, the United Parcel Service announced it was
11 going to invest some \$860 million in an expansion and
12 create some 6000 part-time jobs of high caliber and
13 high quality and relatively high compensation level and
14 significant economic benefits available to the
15 employees.

16 And one of the things that's unique about
17 the UPS operation is that they really have a great
18 number of their jobs on a part-time basis and there is
19 a need for other part-time jobs to fill the hours
20 available from those employees. And they operate on a
21 part-time basis at UPS because of the production level
22 required of their employees in a relatively high paced
23 burst of energy and effort.

1 One of the things that's been recognized as
2 an economic benefit by the convenience stores across
3 the country, is that the lottery brings traffic into
4 their stores and that the lottery player patron of
5 their stores does spend more and put more in their
6 shopping basket of non-lottery products than the non-
7 lottery customer. They did an extensive study
8 nationwide recently, and the Commissioners may wish to
9 get a copy of that report from the National Association
10 of Convenience Stores.

11 There have been questions about who plays
12 the lottery and in the Kentucky it's much the same as
13 everywhere else. One of the interesting comments and
14 recently Dr. Dobson made reference to a research study
15 in Kentucky in 1994 in his press release last week, and
16 in particular he made reference to play among the
17 economic group of players that had an income of \$15,000
18 or less. I've attached to my testimony, a copy of that
19 research report.

20 And one thing I'd like to point out to the
21 panel is that while the citation by Dr. Dobson was, in
22 fact, correct, that group is by far, its player profile
23 is such that more individuals from that income group
24 choose not to play the lottery than do choose to play

1 the lottery. And in fact, in response to that research
2 which the report shows, 40 percent of them indicated
3 they had never played the lottery. Again, I think that
4 is a demonstration of what many of the panels have
5 recognized that individuals are capable of making an
6 informed judgment.

7 I'd like to conclude by making reference to
8 a couple of the questions, that and we are involved
9 with compulsive gambling, meeting our social
10 responsibility. In Kentucky, my testimony makes
11 reference to that, and the executive director had asked
12 for comments with regard to operations and out-
13 sourcing. And I would simply say that in lotteries,
14 and this is explained in more detail within my written
15 testimony, have, like every other business decision, an
16 economic decision to make and a decision about best
17 delivered services.

18 Lotteries traditionally do a significant
19 amount of out-sourcing and the judgment as to the level
20 of out-sourcing is one that each lottery makes based on
21 their own facts and circumstances and the political
22 climate in their state and may even be a governing
23 factor. I've been involved in lotteries in West
24 Virginia where out-sourcing was maximized. Because of

1 the flexibility afforded us to operate as a public
2 corporation in Kentucky, we make those decisions on an
3 individual case-by-case basis, and during the course of
4 my tenure as president there, we've made different
5 decisions depending on the unique circumstances of each
6 of the matters at hand.

7 Let me just say in conclusion that as
8 Rebecca said, it's important in closing for me to
9 mention a few things to you. First that the citizens
10 of Kentucky chose by a referendum in 1988 to have a
11 lottery. Research shows that 67 percent of Kentuckians
12 support it. That referendum nearly 10 years ago
13 allowed our Kentucky legislature to enable the lottery
14 to benefit the people of Kentucky. Our lottery has,
15 and is fulfilling its statutory and corporate mission,
16 generating revenue for the treasury and providing fun
17 and entertaining games for the broad, general public
18 that are conducted in the highest standards of
19 integrity, security, while operating within a framework
20 of public accountability and social responsibility.

21 Members of the Commission, the voters and
22 citizens of the Commonwealth have elected to have and
23 support a lottery. It is the job of the board members
24 of the Kentucky Lottery Corporation, its management and

1 employees to see that we deliver the best lottery that
2 we can to them and it is the job of the general
3 assembly and the elected officials of the state of
4 Kentucky to see that we do just that.

5 Again, I want to thank you for the
6 opportunity of hearing before the Commission and I
7 applaud you for being willing to take this, undertake
8 this important task with which you are charged. I'm
9 sure that we will all substantially benefit from your
10 efforts.

11 Thank you, very much.

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13 CHAIRPERSON JAMES: Thank you, Mr. Gleason.